

State of Alaska

Audit Guide
and
Compliance Supplement
for
State Single Audits

Office of Management and Budget
Office of the Governor
State of Alaska

May 2002

Contents

Section 1 Introduction

Overview	2
Purpose of Alaska's Single Audit Regulation	3

Section 2 Requirements

State Audit and Major Program Thresholds	4
Total Adjusted Expenditures Computation	5
Professional Standards	6
Audit Requirements	7

Section 3 Reporting

Reporting Package	8
Schedule of State Financial Assistance	9
Auditor's Reports	10
Summary Schedule of Prior Audit Findings & Corrective Action Plan -	11
Submitting Single Audits	12
Example Reports	13

Section 4 Definitions -- Questions & Answers

Definitions	27
Questions & Answers	28

Appendix

2 AAC.45.Grant Administration	A – 1
-------------------------------------	-------

Compliance Supplement

Compliance Supplement Overview	C – 1
Single Audit Contacts	C – 2
General Compliance Requirements	C – 3

Section 1 - Introduction

Overview

This *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* has been prepared to assist entities and auditors with state single audit preparation. It contains two major sections.

Audit Guide

Prepared by Alaska Office of Management and Budget (Alaska OMB)

Compliance Supplement

General Requirements

Prepared by Alaska OMB

Specific Requirements

Prepared by the various state agencies
administering state assisted programs

To a significant extent, the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* is intended to parallel the federal Single Audit Act Amendments of 1996, and federal Office of Budget and Management (Federal OMB) Circular A-133 *Audits of States and Local Governments, and Non-Profit Organizations* (June 1997 Revision).

None of the material in this guide supersedes or reduces federal audit requirements.

Alaska Office of Management and Budget would appreciate your assistance in identifying improvements for future updates to the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

Please direct your comments to:

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Alaska Office of Management & Budget
P.O. Box 110020
Juneau, AK 99811-0020
Phone (907) 465-4666
Fax (907) 465-3008
e-mail kym_mauseth@gov.state.ak.us
OMB Audit Website
<http://www.gov.state.ak.us/omb/AuditHome.html>

Purpose of Alaska's Single Audit Regulation

2 AAC 45.010-.090

Major reasons for the state single audit regulation

- To promote accountability of state financial assistance
- To increase the efficiency of the monitoring process

Prior to the single audit regulation

- Entities were frequently subject to multiple audits that were time-consuming, duplicative, and incomplete
- Overall state view was narrowed to department level and often funds were never audited

The intention of the adoption and subsequent revisions to Alaska's single audit regulation 2 AAC 45 is to parallel the federal Single Audit Act Amendments of 1996 and OMB Circular A-133 to a significant extent. This enables the state to receive audits conducted for the federal government that also meet state agency information needs, resulting in a more efficient and effective method of gathering information.

State single audits are intended to meet the basic audit needs for all state agencies in a non-duplicative way. However, single audits do not entirely eliminate the possibility that some additional or different audit work may still be conducted on state awards. In some cases, agencies may need to conduct or request a program evaluation. Any follow-up work should build on the original single audit work.

Section 2 – Requirements

State Audit and Major Program Thresholds

State Audit Threshold

Unless additional audit requirements are imposed by state or federal law, a recipient of state financial assistance that **expends a cumulative total*** equal to or greater than

\$300,000

during the entity's fiscal year is required to submit an annual single audit.

Audit emphasis must focus on the most important areas. Because it would be impractical to audit all programs of every entity and still keep the single audit emphasis on materiality and efficiency, auditors are required to evaluate administration of "major programs."

Major State Program Thresholds

Major Program categories for state financial assistance during an entity's fiscal year are as follows:

Major State Program Definition

Program Expenditures	Total Adjusted Expenditures for All State Programs *
\$ 50,000	Less than \$10 million
\$100,000	\$10 to 20 million
\$200,000	\$20 to 50 million
\$300,000	Over \$50 million

*See Page 5 Total Adjusted Expenditures Computation

Total Adjusted Expenditures Computation

For the purpose of determining State Audit and Major Program Thresholds,

Total expenditures equals

Total expenditures from all financial assistance programs

less

Direct federal funding

Federal pass-through funds, and/or

Expenditure of revenues from specific state major entitlement programs

plus

Non-cash state financial assistance

Federal pass-through funds

Federal money passed to an entity by the state is **NOT** considered state financial assistance.

Expenditure of revenues from specific state major entitlement programs

Revenues and expenditures of revenues in the following form are **excluded** per 2 AAC 45.010 (m). Appendix A– 3 Chapter 45 Grant Administration

- State revenue sharing and safe communities program
- Amusement and gaming tax money
- Aviation fuel tax money
- Electric and telephone cooperative gross revenue tax refunds
- Alcoholic beverage license fee refunds
- Fisheries tax refunds (Department of Revenue)

Non-cash state financial assistance

State non-cash financial assistance such as free rent, donated property, or donated surplus property, shall be valued at fair market value at the time of receipt or the assessed value provided by the state agency. Non-cash financial assistance values **must be included in the total expenditure calculation** for the fiscal year in which it was received.

Professional Standards

Auditors must comply with the latest audit standards. The professional standards required for the state single audit are as follows:

Auditing, accounting, and reporting standards

Issued by the American Institute of Certified Public Accountants (AICPA) including the following:

2002 Audit and Accounting Guides, particularly

Audits of State and Local Governmental Units

Not-for-Profit Organizations

Health Care Organizations

Audits of Colleges and Universities

Statements on Auditing Standards (SAS), particularly

SAS 74

Compliance Auditing Considerations in

Audits of Governmental Entities and

Recipients of Governmental Financial

Assistance

SAS 82

Consideration of Fraud in a Financial Statement Audit

SAS 87

Restricting the Use of an Auditor's Report

SAS 93

Omnibus Statement on Auditing Standards - 2000

Statements of Position (SOP), particularly

SOP 98-3

Audits of States, Local Governments, and

Not-for-Profit Organizations Receiving

Federal Awards

Government Auditing Standards

Promulgated by the U.S. Comptroller General

Issued by the U.S. General Accounting Office (1994 revision), as amended through Amendment #3, issued in January 2002.

Alaska Administrative Code, particularly

2 AAC 45.010 AUDIT REQUIREMENTS

2 AAC 45.060 EXTERNAL QUALITY REVIEW OF
AUDIT ORGANIZATIONS

2 AAC 45.070 APPLICABILITY

2 AAC 45.080 EXEMPTIONS FROM FINANCIAL
ASSISTANCE

2 AAC 45.090 DEFINITIONS

State of Alaska Audit Guide and Compliance Supplement for State Single Audits

Audit Requirements

State Single Audit

2 AAC 45.010 AUDIT REQUIREMENTS

An entity that meets the State Audit Threshold is required to have an independent auditor conduct

An audit for the entire operations of the entity

or

A program audit if the entity

Receives financial assistance under only **one** state program

and

No indirect costs (including allocation of costs) are charged to the program

The audit must be conducted according to the audit standards effective at the time of review for the audit period. Current audit standards are identified on Page 6 Professional Standards.

The following auditor's reports are required

Report on the entity's financial statements and supplementary schedule of state financial assistance

Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*

Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Section 3 – Reporting

Reporting Package

An entity that meets the state single audit requirements is required to submit a reporting package that includes the following:

- Financial Statements and a supplementary Schedule of State Financial Assistance
- Auditor's reports
In an effort to make the reports understandable and to reduce the number of reports issued, the following format of reports is recommended.
 - Opinion on the Financial Statements and supplementary Schedule of State Financial Assistance
 - Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
 - Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Auditor's reports may be in the form of either combined or separate reports and may be organized differently from this recommended format.

- Schedule of Findings and Questioned Costs*
- Summary Schedule of Prior Audit Findings*
- Corrective Action Plan*

Until the state coordinating agency receives sufficient copies of acceptable audit reports including the additional items noted above, as applicable, the auditee does not receive credit for meeting the audit requirement.

* As applicable

Schedule of State Financial Assistance

For each financial assistance award, the following information is required:

Name of State Agency administering the award
Name of Federal Awarding Agency (Federal Pass-Through)
Program Name and Award Number
Expenditures for Audit Period
Identification of Major State Programs

The schedule should also include total overall expenditures as well as expenditures subtotaled by program and by each awarding agency.

Any other information such as the following may be included to make the schedule easier to read:

Award Period
Award Amount
Beginning Revenues Receivable (deferred revenue)
Receipts for Audit Period
Ending Revenues Receivable (deferred revenue)

Auditor's Reports

In general, auditor's opinions and reports must include the following:

Opinion on Financial Statements and Supplementary Schedule of State Financial Assistance

- Must include an opinion (or disclaimer of opinion) on whether the
- financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles and
 - schedule of state financial assistance is presented fairly in all material respects in relation to the financial statements taken as a whole

Internal Control Related to Financial Statements and Internal Control Related to Major Programs

Report must describe the scope of testing of internal control and the results of the tests and, where applicable, must refer to the separate schedule of findings and questioned costs. It is **not expected** that the auditor will test internal control structure policies and procedures on which there is no intent to rely for purposes of expressing an opinion on compliance or the financial statements.

Compliance with Laws, Regulations, and the Provisions of Contracts or Grant Agreements, Noncompliance with which Could Have a Material Effect on the Financial Statements

Report must include an opinion, or disclaimer of opinion, on whether the auditee complied with laws, regulations, and the provisions of contracts or grant agreements; noncompliance with which could have a direct and material effect on the financial statements and each major program. As applicable, the report must refer to the separate Schedule of Findings and Questioned Costs.

Schedule of Findings and Questioned Costs (As applicable)

If non-compliance is reported the following information for each finding should be included:

- Reference number assigned by the auditor (number should include fiscal year in which the finding was initially reported)
- Identification of the award(s) for which non-compliance was found.
- Identify the specific requirement which the grantee did not comply
- Identify questioned costs for state awards that exceed \$1,000 in the aggregate for all tested transactions for financial assistance being audited
- Include recommendations for corrective action to prevent future occurrences of non-compliance.

Summary Schedule of Prior Audit Findings & Corrective Action Plan

The auditee is responsible for follow-up and corrective action on all audit findings, reportable conditions and recommendations included in the audit report.

Summary Schedule of Prior Audit Findings

As part of this responsibility, the auditee is required to submit a summary schedule of the prior year's audit findings **even if findings have been resolved**. The auditee should provide an update on the status of corrective actions taken on prior findings and conditions including dates when findings and conditions were resolved and/or planned completion dates. This summary must also include the status of findings from before the prior year if reported as unresolved in the prior year audit period.

Corrective Action Plans

The auditee is required to submit corrective action plans for each of the current year audit findings. Each finding or condition should be concisely addressed; however, the plans should contain adequate information for state agencies to evaluate and monitor the recipient's intended actions. As a part of the evaluation process, state grantor agencies may require additional information or clarification of intended actions.

Corrective action plans should include the following:

- **Comments on Findings, Reportable Conditions, and Auditor's Recommendations**

The auditee should provide a statement of concurrence or nonconcurrence with the findings, reportable conditions, and auditor's recommendations. If the auditee does not agree with a finding, reportable condition, or recommendation, specific information should be provided to explain its position.

- **Actions Taken or Planned**

The auditee should describe actual or planned actions that will correct deficiencies identified in the report. For planned actions, the auditee should provide projected dates for completion. If the auditee believes a corrective action is not required, a statement describing the reasons should be included.

The Summary Schedule of Prior Audit Findings and the Corrective Action Plan must include the reference numbers the auditor assigned to the audit findings in the schedule of findings and questioned costs. (Numbering should include the fiscal year in which the finding was initially reported.)

Submitting Single Audits

Where to Send and What to Submit

Where to Send - Single Audit Coordinator

Centralized Collection of Audits

As the single audit “Coordinating Agency” for the State of Alaska, the Alaska Office of Management and Budget (Alaska OMB) provides the service of collecting all audits required from entities. This includes **state single audits** for state financial assistance and **federal single audits** for recipients of federal pass-through monies distributed by a state agency.

Send to: Single Audit Coordinator
Alaska Office of Management and Budget
P.O. Box 110020
Juneau, AK 99811-0020

What to Submit - Complete Reporting Packages

Be sure to include the audited financial statements and all applicable items of a complete Reporting Package as described on Page 8

Number of Copies

State Single Audit	Federal Single Audit	Federal and State Single Audits Bound Together
<ul style="list-style-type: none">▪ 1 Copy for Each State Agency listed on the Schedule of State Financial Assistance▪ 1 Copy for Alaska OMB	<ul style="list-style-type: none">▪ 1 Copy for Each State of Alaska Agency listed on the Schedule of Expenditures of Federal Awards▪ 1 Copy for Alaska OMB	<ul style="list-style-type: none">▪ 1 Copy for Each State of Alaska Agency listed on either the Schedule of Expenditures of Federal Awards or Schedule of State Financial Assistance▪ 1 Copy for Alaska OMB

After receipt and review of **complete reporting packages**, Alaska OMB will distribute to the various state grantor agencies.

**If you have questions, please contact Alaska OMB at
(907) 465-4666 or (907) 465-3568**

Note: School Districts are required to send a complete reporting package and management letter directly to Department of Education & Early Development.

Example Reports

Example reports on the following pages are based on reports issued under GAAS, *Government Auditing Standards*, and AICPA Statement of Position 98-3.

Example 1

Unqualified Opinion on General-Purpose Financial Statements and Supplementary Schedule of State Financial Assistance — Governmental Entity

Example 1a

Unqualified Opinion on Financial Statements and Supplementary Schedule of State Financial Assistance — Not-for-Profit Organization

Example 2

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

(No Reportable Instances of Noncompliance and No Material Weaknesses [No Reportable Conditions Identified])

Example 2a

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

(Reportable Instances of Noncompliance and Reportable Conditions Identified)

Example 3

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

(Unqualified Opinion on Compliance and No Material Weaknesses [No Reportable Conditions Identified])

Example 3a

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

(Qualified Opinion on Compliance and Reportable Conditions Identified)

Example 1. Unqualified Opinion on General-Purpose Financial Statements and Supplementary Schedule of State Financial Assistance—Governmental Entity¹

Independent Auditor's Report

[Addressee]

We have audited the accompanying general-purpose financial statements of the City of Example, Any State, as of and for the year ended June 30, 20X1, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City of Example's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*,² issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Example, Any State, as of June 30, 20X1, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of the City of Example's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.³

¹ Auditors may also refer to the AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units* for additional guidance on reporting on the general-purpose financial statements of a government.

² The standards applicable to financial audits include the general, fieldwork, and reporting standards described in chapters 3, 4, and 5 of *Government Auditing Standards*.

³ The following paragraph should be deleted if the schedule of State Financial Assistance is not presented with the general-purpose financial statements (that is, a separate single audit package is issued). In such a circumstance, the required reporting on the schedule may be incorporated in the report issued to meet the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. See example 3, note 4 and example 3a, note 5 for additional guidance.

The accompanying schedule of State Financial Assistance⁴ is presented for purposes of additional analysis as required by the State of Alaska Office of Management and Budget, *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.⁵

[Signature]

[Date]

⁴If the auditor is reporting on additional supplementary information (for example, combining and individual fund and account group financial statements and schedules), this paragraph should be modified to describe the additional supplementary information. The example reports in appendix A of the AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units* and SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1, AU sec. 551) provide useful guidance.

⁵When reporting on the supplementary information, the auditor should consider the effect of any modifications to the report on the general-purpose financial statements. Furthermore, if the report on supplementary information is other than unqualified, this paragraph should be modified. Guidance for reporting in these circumstances is described in paragraphs 9 through 11 and 13 through 14 of SAS No. 29 (AICPA, *Professional Standards*, vol. 1, AU secs. 551.09–.11 and 551.13–.14).

Example 1a. Unqualified Opinion on Financial Statements and Supplementary Schedule of State Financial Assistance—Not-for-Profit Organization¹

Independent Auditor's Report

[Addressee]

We have audited the accompanying statement of financial position of Example NFP as of June 30, 20X1, and the related statements of activities and cash flows² for the year then ended. These financial statements are the responsibility of Example NFP's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*,³ issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Example NFP as of June 30, 20X1, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of Example NFP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.⁴

¹Auditors may also refer to the AICPA Audit and Accounting Guide *Not-For-Profit Organizations* for additional guidance on reporting on the financial statements of a not-for-profit organization.

²If the not-for-profit organization is a voluntary health and welfare organization, this phrase should be modified to state "and the related statements of activities, functional expenses and cash flows."

³The standards applicable to financial audits include the general, fieldwork, and reporting standards described in chapters 3, 4, and 5 of *Government Auditing Standards*.

⁴The following paragraph should be deleted if the Schedule of State Financial Assistance is not presented with the basic financial statements (that is, a separate single audit package is issued). In such a circumstance, the required reporting on the schedule may be incorporated in the report issued to meet the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. See example 3, note 4 and example 3a, note 5 for additional guidance.

The accompanying Schedule of State Financial Assistance⁵ is presented for purposes of additional analysis as required by the State of Alaska Office of Management and Budget, *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.⁶

[Signature]

[Date]

⁵If the auditor is reporting on additional supplementary information (for example, a comparison of actual and budgeted expenses), this paragraph should be modified to describe the additional supplementary information. SAS No. 29 provides useful guidance.

⁶When reporting on the supplementary information, the auditor should consider the effect of any modifications to the report on the general-purpose financial statements. Furthermore, if the report on supplementary information is other than unqualified, this paragraph should be modified. Guidance for reporting in these circumstances is described in paragraphs 9 through 11 and 13 through 14 of SAS No. 29 (AICPA, *Professional Standards*, vol. 1, AU secs. 551.09–.11 and 551.13–.14).

Example 2

Report on Compliance and on Internal Control Over Financial Reporting¹
Based on an Audit of Financial Statements Performed in Accordance with
Governmental Auditing Standards

**(No Reportable Instances of Noncompliance and No Material Weaknesses
[No Reportable Conditions Identified])²**

[Addressee]

We have audited the financial statements of Example Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated August 15, 20X1.³ We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*,⁴ issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.^{5 6}

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Example Entity's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that

¹ See paragraph 4.12 of SOP 98-3 for a description of internal control over financial reporting.

² The auditor should use the portions of examples 1 and 1a that apply to the specific auditee situation. For example, if the auditor will be giving an unqualified opinion on compliance but has identified reportable conditions, the compliance section of example 1 would be used along with the internal control section of example 1a. Alternatively, if the auditor will be giving a qualified opinion on compliance but has not identified reportable conditions, the internal control section of example 1 would be used along with the compliance section of example 1a.

³ Describe any departure from the standard report (for example, a qualified opinion, a modification as to the consistency because of a change in accounting principle, or a reference to the report of other auditors).

⁴ The standards applicable to financial audits include the general, fieldwork, and reporting standards described in chapters 3, 4, and 5 of *Government Auditing Standards*.

⁵ See paragraphs 5.18 and 5.19 of *Government Auditing Standards* for the criteria for reporting.

⁶ If the auditor has issued a separate letter to management to communicate matters that do not meet the criteria for reporting in paragraph 5.18 of *Government Auditing Standards*, this paragraph should be modified to include a statement such as the following: "However, we noted certain immaterial instances of noncompliance, which we have reported to management of Example Entity in a separate letter dated August 15, 20X1." This reference to management is intended to be consistent with paragraph 5.20 of *Government Auditing Standards* which indicates that communications to "top" management should be referred to.

might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.⁷

This report is intended solely for the information and use of the audit committee, management, and the State of Alaska, and is not intended to be and should not be used by anyone other than these specified parties.⁸

[Signature]

[Date]

⁷ If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the following: “However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Example Entity in a separate letter dated August 15, 20X1.” This reference is not intended to preclude the auditor from including other matters in the separate letter to management. Furthermore, the reference to management is intended to be consistent with paragraph 5.28 of *Government Auditing Standards* which indicates that communication to “top” management should be referred to.

⁸ This paragraph conforms to SAS No.87, *Restricting the Use of an Auditors Report* (AICPA, *Professional Standards*, Vol.1, AU sec.532). See SAS No. 87 for additional guidance on restricted-use reports.

Example 2a

Report on Compliance and on Internal Control Over Financial Reporting¹ Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*

(Reportable Instances of Noncompliance and Reportable Conditions Identified)²

[Addressee]

We have audited the financial statements of Example Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated August 15, 20X1.³ We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*,⁴ issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*⁵ and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example 20X1-2 and 20X1-5].⁶

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Example Entity's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the

¹ See paragraph 4.12 of SOP 98-3 for a description of internal control over financial reporting.

² The auditor should use the portions of examples 1 and 1a that apply to the specific auditee situation. For example, if the auditor will be giving an unqualified opinion on compliance but has identified reportable conditions, the compliance section of example 1 would be used along with the internal control section of example 1a. Alternatively, if the auditor will be giving a qualified opinion on compliance but has not identified reportable conditions, the internal control section of example 1 would be used along with the compliance section of example 1a.

³ Describe any departure from the standard report (for example, a qualified opinion, a modification as to the consistency because of a change in accounting principle, or a reference to the report of other auditors).

⁴ The standards applicable to financial audits include the general, fieldwork, and reporting standards described in chapters 3, 4, and 5 of *Government Auditing Standards*.

⁵ See paragraphs 5.18 and 5.19 of *Government Auditing Standards* for the criteria for reporting.

⁶ If the auditor has issued a separate letter to management to communicate matters that do not meet the criteria for reporting in paragraph 5.18 of *Government Auditing Standards*, this paragraph should be modified to include a statement such as the following: "We also noted certain immaterial instances of noncompliance, which we have reported to management of Example Entity in a separate letter dated August 15, 20X1." This reference to management is intended to be consistent with chapter 5, paragraph 5.20 of *Government Auditing Standards*, which indicates that communications to "top" management should be referred to.

internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Example Entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items *[list the reference numbers of the related findings, for example 20X1-1 and 20X1-8]*.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.^{7 8}

This report is intended solely for the information and use of the audit committee, management, and the State of Alaska, and is not intended to be and should not be used by anyone other than these specified parties.⁹

[Signature]

[Date]

⁷ If conditions believed to be material weaknesses are disclosed, the report should identify the material weaknesses that have come to the auditor's attention. The last sentence of this paragraph should be replaced with language such as the following: "However, of the reportable conditions described above, we consider items [list the reference numbers of the related findings, for example 20X1-1 and 20X1-8] to be material weaknesses."

⁸ If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the following: "We also noted other matters involving the internal control over financial reporting, which we have reported to management of Example Entity in a separate letter dated August 15, 20X1." This reference is not intended to preclude the auditor from including other matters in the separate letter to management. Furthermore, the reference to management is intended to be consistent with paragraph 5.28 of *Government Auditing Standards*, which indicates that communication to "top" management should be referred to.

⁹ This paragraph conforms to SAS No. 87, *Restricting the Use of an Auditor's Report* (AICPA Professional Standards, Vol. 1, AU sec.532) See SAS No.87 for additional guidance on restricted-use reports.

Example 3

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* (Unqualified Opinion on Compliance and No Material Weaknesses [No Reportable Conditions Identified])¹

[Addressee]

Compliance

We have audited the compliance of Example Entity with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that are applicable to each of its major state programs for the year ended June 30, 20X1. Example Entity's major state programs are identified in the accompanying schedule of state financial assistance. Compliance with laws, regulations, contracts, and grants, general requirements, and the specific requirements applicable to each of its major state programs is the responsibility of Example Entity's management. Our responsibility is to express an opinion on Example Entity's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*,² issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Example Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Example Entity's compliance with those requirements.

In our opinion, Example Entity complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 20X1. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and which are described in the accompanying schedule of findings and questioned costs

¹ The auditor should use the portions of examples 2 and 2a that apply to a specific auditee situation. For example, if the auditor will be giving an unqualified opinion on compliance but has identified reportable conditions, the compliance section of example 2 would be used along with the internal control section of example 2a. Alternatively, if the auditor will be giving a qualified opinion on compliance but has not identified reportable conditions, the internal control section of example 2 would be used along with the compliance section of example 2a.

² The standards applicable to financial audits include the general, fieldwork, and reporting standards described in chapters 3, 4, and 5 of *Government Auditing Standards*.

as items [list the reference numbers of the related findings, for example, 20X1-3 and 20X1-6].³

Internal Control Over Compliance

The management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered Example Entity's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.⁴

This report is intended solely for the information and use of the audit committee, management, and the State of Alaska, and is not intended to be and should not be used by anyone other than these specified parties.⁵

[Signature]

[Date]

³ When there are no such instances of noncompliance identified in the schedule of findings and questioned costs, the last sentence should be omitted.

⁴ There may be instances in which it would be appropriate to report on the *Schedule of State Financial Assistance* in this report (that is, separate single audit package is issued). In such a circumstance, a new section should be added immediately following the paragraph as follows:

Schedule of State Financial Assistance

We have audited the financial statements of Example Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated August 15, 20X1. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying *Schedule of State Financial Assistance* is presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Describe any departure from the standard report (for example, a qualified opinion, a modification as to consistency because of a change in accounting principle, or a reference to the report of other auditors).

⁵ This paragraph conforms to SAS No. 87, *Restricting the Use of an Auditor's Report* (AICPA, *Professional Standards*, Vol. 1, AU sec.532) See SAS No.87 for additional guidance on restricted-use reports.

Example 3a

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* (Qualified Opinion on Compliance and Reportable Conditions Identified)¹

[Addressee]

Compliance

We have audited the compliance of Example Entity with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that are applicable to each of its major state programs for the year ended June 30, 20X1. Example Entity's major state programs are identified in the accompanying schedule of state financial assistance. Compliance with laws, regulations, contracts, and grants, general requirements, and the specific requirements applicable to each of its major state programs is the responsibility of Example Entity's management. Our responsibility is to express an opinion on Example Entity's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*,² issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Example Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Example Entity's compliance with those requirements.

As described in item [list the reference numbers of the related findings, for example 20X1-10] in the accompanying schedule of findings and questioned costs, Example Entity did not comply with requirements regarding [identify the types(s) of compliance requirements] that are applicable to its [identify the major state program]. Compliance with such requirements is necessary, in our opinion, for Example Entity to comply with the requirements applicable to that program.

¹ The auditor should use the portions of examples 2 and 2a that apply to a specific auditee situation. For example, if the auditor will be giving an unqualified opinion on compliance but has identified reportable conditions, the compliance section of example 2 would be used along with the internal control section of example 2a. Alternatively, if the auditor will be giving a qualified opinion on compliance but has not identified reportable conditions, the internal control section of example 2 would be used along with the compliance section of example 2a.

² The standards applicable to financial audits include the general, fieldwork, and reporting standards described in chapters 3, 4, and 5 of *Government Auditing Standards*.

In our opinion, except for the noncompliance described in the preceding paragraph, Example Entity complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 20X1.³

Internal Control Over Compliance

The management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered Example Entity's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Example Entity's ability to administer a major state program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20X1-7, 20X1-8, and 20X1-9].

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that

³ When other instances of noncompliance are identified in the schedule of findings and questioned costs as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, the following sentence should be added: "The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20X1-3 and 20X1-6]."

are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.^{4 5}

This report is intended solely for the information and use of the audit committee, management, and the State of Alaska, and is not intended to be and should not be used by anyone other than these specified parties.⁶

[Signature]

[Date]

⁴ If conditions believed to be material weaknesses are disclosed, the report should identify the material weaknesses that have come to the auditor's attention. The last sentence of this paragraph should be replaced with language such as the following: "However, of the reportable conditions described above, we consider items [list the reference numbers of the related findings, for example, 20X1-1 and 20X1-8] to be material weaknesses."

⁵ There may be instances in which it would be appropriate to report on the *Schedule of State Financial Assistance* in this report (that is, separate single audit package is issued). In such a circumstance, a new section should be added immediately following the paragraph as follows:

Schedule of State Financial Assistance

We have audited the financial statements of Example Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated August 15, 20X1. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying *Schedule of State Financial Assistance* is presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Describe any departure from the standard report (for example, a qualified opinion, a modification as to consistency because of a change in accounting principle, or a reference to the report of other auditors).

⁶ This paragraph conforms to SAS No. 87, *Restricting the Use of an Auditor's Report* (AICPA, *Professional Standards*, Vol. 1, AU sec.532) See SAS No.87 for additional guidance on restricted-use reports.

Section 4 – Definitions, Questions & Answers

Definitions

Coordinating Agency

Alaska Office of Management and Budget (Alaska OMB)

As the single audit “Coordinating Agency,” Alaska OMB receives all copies of audit reporting packages. Alaska OMB will distribute reporting packages to the appropriate state agencies after reviewing for timely submission; inclusion of required opinions, reports, and schedules; and conformance with professional standards.

Entity (Recipient)

An organization receiving state financial assistance

“Entity” does not include the University of Alaska or any other state agency.

Financial Assistance

State grants, provider agreements, cooperative agreements, and all forms of state financial assistance to an entity, and all forms of state financial assistance provided through an entity to a third party.

Financial Assistance does not include

- public assistance provided under AS 47, nor goods and services purchased for the direct administration of state government
- goods purchased from a third party by a recipient entity for the direct administration or operation of the recipient entity
- Power Cost Equalization payments
- Amounts received under state loan programs
- Tuition aid paid to an educational institution on students’ behalf

Single Audit

Audits required by 2 AAC 45.010

Entities expending state financial assistance in amounts described in 2 AAC 45.010 are required to submit audits to the State Coordinating Agency.

Questions & Answers

This section is designed to clarify issues or requirements of the state single audit.

1. Will state agencies withhold money from their awards to cover the cost of a single audit, or should the recipient do this?

State agencies are not responsible for withholding money for the cost of a single audit. Recipients of state financial assistance are responsible for budgeting for audit costs.

2. How will recipients know if they should plan for the cost of a single audit before the end of the fiscal year?

It is important to continuously track receipt and expense of state financial assistance.

The recipient could budget for an audit. Then, if it became clear that the audit would not be necessary, the money could be used as allowed in the grant agreements.

3. What money can be used to pay the cost of a state single audit?

Audit costs are legitimate costs of administering state financial assistance. Audit costs can be direct or indirect costs depending on the award agreement or policies established by the state granting agency.

It is important that audit costs be fully documented. Costs apportioned to state programs need to be supported with schedules or other documentation showing how the allocation was applied. Generally, auditors will evaluate the reasonableness of that allocation.

4. How will recipients that have not budgeted for the single audit costs pay for it?

Planning ways to meet audit expenses is an important element in good business management. The recipient of state financial assistance that has not earmarked money for an audit will have to absorb the payment from other unrestricted funds.

Failure to set aside money to pay for audits is not a valid excuse for failing to have an audit performed.

5. What is the penalty for noncompliance or not conducting the single audit?

The single audit regulation does not establish any penalties aside from the penalties already established in law, regulation, or specifically in an award agreement. However, state agencies will view such noncompliance as potential evidence that the recipient may not be able to properly administer awards. This could affect future awards.

6. Are all certified public accountants qualified to perform an audit under 2 AAC 45.010?

2 AAC 45.010 requires an audit to be conducted by an independent auditor according to *Government Auditing Standards*, which requires

- auditors to have continuing professional education related to government auditing requirements
- auditing organizations to have an external quality control review

The State Coordinating Agency may accept audits only from organizations from which it has received their most recent and current, external quality control review report.

Until the State Coordinating Agency receives a current external quality review report, the recipient does not receive credit for meeting the audit requirement.

Grantees required to have audits under 2 AAC 45.010 should ensure that the prospective audit firm satisfies the above requirements prior to contracting with the firm.

7. How do I submit a state single audit?

For submission information, see Page 12 – Submitting Single Audits.

8. Do School Districts reports have any special submission requirements?

Yes. School Districts should follow the guidelines on Page 12 – Submitting Single Audits, with the exception of sending the Department of Education and Early Development's copy of the reporting package directly to the Commissioner of Education and Early Development.

AS 14.14.050 requires the school board of each school district to send a copy of their audit report and management letter to the Commissioner of Education and Early Development by November 15. Send the Commissioner of Education and Early Development's copy to:

Alaska Department of Education & Early Development
Education Support Services
Attn: Ethan Billings
801 West 10th Street, Suite 200
Juneau, AK 99801-1894

9. How does the state determine if an audit meets audit standards?

The State Coordinating Agency will review audit reports for conformance with professional standards; inclusion of required opinions, reports, and schedules; timely completion; and sufficient number of copies. Audits reports will be forwarded to the state agency(s) granting financial assistance for review to ensure each award was included; findings are clear and understandable; and planned corrective actions appear adequate.

10. If an audit report is found deficient, what procedures will be used to notify the parties involved; and who will resolve the issues?

The State Coordinating Agency will notify the recipient (copy to the auditor and applicable granting agencies) of an incomplete reporting package within four weeks of receipt of the audit. Within 30 days of this notification, the recipient is required to provide the requested information and/or documents.

If a revision or further information is required by the auditors, the notification will be sent to the auditor with a copy sent to the recipient and applicable granting agencies. The auditor will have 30 days to submit revised reports or other requested information.

Audits will not be in compliance with the timely submission requirement of the single audit regulation until deficiencies are resolved. The recipient should maintain contact with the affected state agency(s) and the State Coordinating Agency while deficiencies are being resolved.

The State Coordinating Agency will mediate disagreements between the auditor, recipient, and the state granting agency(s).

11. What is a recipient's responsibility when awarding a subrecipient(s) an amount equal to or greater than the audit threshold?

The original recipient of state financial assistance is responsible for ensuring that third parties comply with the single audit requirements. The recipient is required to provide the subrecipient specific information regarding the award and its state requirements. The recipient must have an effective system for monitoring the subrecipient. As applicable, the recipient must ensure that appropriate corrective action is taken within six months after disclosure of a third party's noncompliance with state statute or regulation, or financial assistance agreement.

12. Are auditors required to evaluate the recipient's system for monitoring subrecipient compliance with 2 AAC 45.010?

Yes

13. Are private firms contracted to provide products such as office furnishings considered third party subrecipients that are subject to the single requirements?

No

14. What is the difference between a subrecipient and a vendor?

A subrecipient is an entity that receives state assistance passed down from the original recipient. The subrecipient's responsibility is to meet the requirements of an assistance program.

A vendor is an entity that receives a procurement contract for goods or services from a recipient. Vendor contracts are usually a result of a competitive bidding process. A vendor's responsibility is to meet the requirements of the procurement contract. A vendor may be paid from state financial assistance money.

15. What is the determining factor in deciding whether a third party is a subrecipient or a vendor?

The test for a subrecipient relationship is whether the entity receives state financial assistance **to carry out a program**.

16. Are contracts or agreements negotiated between the state and local governments, such as Transfer of Responsibility Agreements, included under single audit requirements?

Yes, provided the local government has met the audit threshold specified in the single audit regulation.

17. We understand that federal financial assistance includes loans and loan guarantees. Are loans under state programs categorized as state financial assistance and subject to audit?

No

18. How do recipients determine state major programs when their fiscal year has a different yearend than the state?

Major program (and audit) thresholds are based on the recipient's fiscal year.

19. When an entity changes its yearend, how should it treat the stub period for purposes of the state single audit?

A state single audit of the stub period is required if the stub period is longer than six months, or if it was audited by itself. If the stub period is less than six months and not audited separately, it should be included in the succeeding year's single audit.

20. Are auditors required to do compliance testing for financial assistance programs that are excluded from the audit threshold computations?

Yes. If such programs are determined to be major state programs. The exclusion applies only for the audit threshold computation, not compliance testing.

21. If the Compliance Supplement does not contain requirements for a particular program, does that mean this program does not need to be audited for compliance?

No. The auditor should determine major compliance requirements from the award document, and applicable laws and regulations. Auditors can contact

the agency representatives indicated on Page C-2 – Single Audit Contacts (in Compliance Supplement).

22. What requirements apply to federal pass-through money?

Federal pass-through money received from state agencies remains classified as federal financial assistance. Federal compliance and audit requirements apply to this money.

The requirements for federal single audits are contained in the Single Audit Act Amendments of 1996 and federal OMB Circular A-133.

23. What are the federal audit and major program thresholds?

Federal OMB Circular A-133, Revised June 24, 1997, changed audit requirements for fiscal years beginning after June 30, 1996. Requirements are as follows:

Audit Threshold

A recipient of federal awards that expends a cumulative total equal to or greater than \$300,000 during the entity's fiscal year is required to submit a federal single audit. A program audit may be performed if the entity had expenditures under only one federal program and is not subject to any other requirements to have a financial statement audit. (Subject to more detailed requirements – See Federal OMB Circular A-133).

Major Federal Programs

Major federal programs are determined on a risk-based approach. The risk-based approach includes consideration of current and prior audit experience; oversight by federal agencies and pass-through entities; and inherent risk of the federal program. The determination is subject to a variety of exceptions and limitations described in Federal OMB Circular A-133.

24. On which schedule should federal pass-through money be shown?

Preference – on both the schedule of expenditures of federal awards and the schedule of state financial assistance

Acceptable – only on the federal schedule if the federal and state single audits are bound together in the same report and federal funds passed through the State of Alaska are clearly identified on the federal schedule by both federal and state agencies.

25. How can recipients keep the kind of accounting and other records necessary to comply with the requirements under the single audit regulation and financial assistance agreements?

Good business practice requires that documentation be created and retained. These extremely important records can demonstrate to an external reviewer/auditor that claimed expenditures complied with the terms of a financial assistance agreement. This documentation could include, but is not limited to, such things as approved timesheets, vendor invoices, canceled checks, periodic financial and program reports, and an accounting system that adequately identifies costs to programs.

Recipients of state financial assistance are responsible for keeping organized records. It is not the responsibility of the auditor to organize the recipient's financial records. Poorly organized financial records increase audit costs.

Experience has shown that **one of the most frequent problems reported in state single audits is lack of supporting documentation.** When supporting documents can not be produced, auditors usually report "questioned costs."

State agencies may take actions to recover questioned costs from recipients.

26. What are "questioned costs?"

Auditors report expenditures that may not be allowable charges to state programs as "questioned costs." State agencies determine whether charges will be allowed.

Questioned costs usually fall in one of five categories:

- Unallowable - Costs specifically not allowed under the general and specific requirements or conditions of a program
- Ineligible - Costs which would otherwise be allowable except the amounts involved were paid on behalf of an individual who is not eligible
- Undocumented - Costs for which detailed documentation does not exist
- Unapproved - Costs for which the program requires approval and the auditor can not find evidence of approval, or costs not provided for in an approved budget
- Unreasonable - Costs incurred that may not reflect the actions of a prudent person, or the assignment of an unreasonably high valuation to in-kind contributions

Appendix

Chapter 45 Grant Administration

Section

- 10. Audit Requirements
- 60. External quality review of audit organization

Section

- 70. Applicability
- 80. Exemptions from financial assistance
- 90. Definitions

2 AAC 45.010 AUDIT REQUIREMENTS. (a) As part of the financial information required under AS 37.05.030, a state agency that enters into a financial assistance agreement to provide financial assistance to an entity shall, in coordination with any other state agencies providing financial assistance to that entity, require that entity to submit to the Department of Administration through the state coordinating agency an audit of the recipient entity if that entity is subject to an audit under this section. The audit must be conducted and submitted as described in this section. In order to ensure compliance with this subsection, a state agency must include the audit requirements of this section in any financial assistance agreement subject to this subsection.

(b) An entity that expends financial assistance with a cumulative total of \$300,000 or more during the entity's fiscal year shall submit an audit report for the audit period to the state coordinating agency, by

(1) the earlier of

- (A) 30 days after the entity receives its audit report for the audit period; or
- (B) nine months after the end of the audit period; or

(2) a later date than the date calculated under (1) of this section, if

- (A) the state agency that provides the financial assistance agrees to the change of date; and
- (B) the agreement under (A) of this paragraph is made in
 - (i) writing; and
 - (ii) advance of the date calculated under (1) of this subsection.

(c) An audit required by this section must be conducted by an independent auditor, according to the following audit standards effective at the time of review or the audit period:

- (1) *Government Auditing Standards*, 1994 revision adopted by the comptroller general of the United States;
- (2) generally accepted auditing standards, as accepted by the American Institute of Certified Public Accountants in effect as of January 1, 1998 for the type of entity being audited;

(3) *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, May 1998 revision, prepared by the state coordinating agency.

- (d) The audit required under this section must report on the following:
 - (1) the system of internal controls of the entity and the auditor's identification of reportable conditions and material weaknesses of the entity, using the applicable standards set out in (c) of this section;
 - (2) the entity's compliance with applicable state statutes and regulations and applicable financial assistance agreements affecting the expenditure of the financial assistance; the report must identify findings and known questioned costs that exceed \$1,000 in the aggregate for all transactions of expenditures tested for the financial assistance being audited;
 - (3) the entity's financial statements;
 - (3) the schedule of state financial assistance.
- (e) As part of the audit report required under this section, the entity must provide
 - (1) written comments on any
 - (A) findings;
 - (B) known questioned costs;
 - (C) reportable conditions, including material weaknesses; and
 - (D) recommendations contained in the audit report;
 - (2) the entity's plan for corrective action, if any findings are identified or any recommendations are made in the audit report;
 - (3) the status of the entity's implementation of any plans for corrective actions related to
 - (A) the audit reports required under this section for the fiscal year before the audit period; and
 - (B) unresolved findings of audit reports required by this section for audit periods before those specified in (A) of this paragraph; and
 - (4) a written explanation of the reasons why corrective action will not be taken if the entity does not intend to take corrective action on the findings and recommendations in any audit report required by this section.
- (f) An audit report required under this section need not evaluate the effectiveness of a program funded by financial assistance. However, a program evaluation or financial monitoring may be conducted by the state agency or requested of the entity by the state agency that entered into the financial assistance agreement.
- (g) An audit required by this section must cover either
 - (1) the entire operations of the entity; or

(2) the program of the entity for which financial assistance was expended, if

(A) the entity receives financial assistance from only one state program of a state agency; and

(B) the entity does not expend the financial assistance being audited, for indirect costs, including allocations of indirect costs.

(h) An entity shall provide the state coordinating agency with sufficient copies of each audit report to allow submission of a copy to each state agency providing financial assistance to the entity. The state coordinating agency shall determine if auditing standards have been met and shall forward a copy of the audit to the Department of Administration, upon request, and other appropriate state agencies. The state coordinating agency shall coordinate the assignment of the resolution to one state agency, if the exceptions concern more than one state agency. The applicable state agency providing financial assistance to the entity must meet its responsibilities under other law for ensuring compliance with the audit report.

(i) Unless additional audit requirements are imposed by state or federal law, a state agency that provides financial assistance to an entity shall accept the audit required by this section in satisfaction of any other audit requirement. If additional audit work is necessary to meet the needs of a state agency, the audit work must be based on the audit required by this section. Nothing in this subsection authorizes a state agency to seek payment from the entity for the additional audit work.

(j) A third party that receives financial assistance through an entity, in an amount described in this section, is subject to the applicable requirements of this section. An entity that disburses \$300,000 or more in state financial assistance to a third party shall ensure that the third party complies with the requirements of this section. That entity shall also ensure that appropriate corrective action is taken within six months after a third party's noncompliance with an applicable state statute or regulation, or financial assistance agreement, is disclosed.

(k) Repealed 07/01/98

(l) For purposes of this section, if an entity has not identified its fiscal year, that entity's fiscal year is July 1 through June 30.

(m) Financial assistance in the following form is not included when calculating whether an entity meets the threshold monetary requirement under (b) of this section:

(1) state revenue sharing and municipal assistance money provided under AS 29.060.010 – 29.60.375;

(2) amusement and gaming tax money provided under AS 43.35.050;

(3) aviation fuel tax money provided under AS 43.40.010;

- (4) electric and telephone cooperative gross revenue tax refunds provided under AS 10.25.570;
- (5) alcoholic beverage license fee refunds provided under AS 04.11.610;
- (6) fisheries tax refunds provided under AS 43.75.130.

(n) Financial assistance in a form listed in (m) of this section is not exempt from compliance testing if the entity meets the threshold monetary requirement under (b) of this section.

(o) Repealed 07/01/98 (Eff. 8/1/85, Register 95; am 6/29/90, Register 114; 07/01/98, Register 146)

Authority: AS 37.05.020 AS 37.05.030 AS 37.05.190

2 AAC 45.060. EXTERNAL QUALITY REVIEW OF AUDIT ORGANIZATION. The state coordinating agency may only accept an audit under this section, if that organization has submitted to the state coordinating agency a copy of the organization's most recent external quality review report that meets the standards described in 2 AAC 45.010(c)(1) and (2). (Eff. 07/01/98, Register 146)

Authority: AS 37.05.020 AS 37.05.030 AS 37.05.190

2 AAC 45.070. APPLICABILITY. (a) The amended version of this chapter, effective 07/01/98, applies to an audit for an audit period that begins or continues after June 30, 1998.

(b) An entity may agree to be subject to the provisions of the amended version of this chapter, effective 07/01/98, for an audit period beginning on or after July 1, 1997 and ending on or before June 30, 1998, by voluntarily submitting an audit that complies with those provisions. (Eff. 07/01/98, Register 146)

Authority: AS 37.05.020 AS 37.05.030 AS 37.05.190

2 AAC 45.080. EXEMPTIONS FROM FINANCIAL ASSISTANCE. (a) For purposes of this chapter, "financial assistance" does not include the following:

- (1) public assistance provided under AS 47;
- (2) goods or services purchased for the direct administration or operation of state government;
- (3) moneys advanced to an entity under one or more state loan programs;
- (4) power cost equalization payments made to an electric cooperative on behalf of its customers;
- (5) scholarships, loans, or other tuition aid provided to students, but paid to an education institution on their behalf.

(b) In addition to the exemptions set out in (a) of this section, for a third party, "financial assistance" does not include goods purchased from the third party for direct administration or operation of the entity that received financial assistance. (Eff. 07/01/98, Register 146)

Authority: AS 37.05.020 AS 37.05.030 AS 37.05.190

2 AAC 45.090. DEFINITIONS. For purposes of this chapter, unless the context otherwise requires,

(1) "audit period" means the entity's fiscal year in which the entity expended financial assistance;

(2) "entity" does not include the University of Alaska or any other state agency;

(3) "financial assistance" means state grants, contracts, provider agreements, cooperative agreements, and all forms of state financial assistance to an entity; "financial assistance" includes all forms of state financial assistance provided through an entity to a third party;

(4) "known questioned costs" means those questioned costs specifically identified by the auditor in the audit conducted under this chapter;

(5) "state coordinating agency" means the office of management and budget (OMB), Office of the Governor, or OMB's designee. (Eff. 07/01/98, Register 146)

Authority: AS 37.05.020 AS 37.05.030 AS 37.05.190

Compliance Supplement

Compliance Supplement Overview

This section describes general and specific compliance requirements, which if not met, could have a material effect on the auditees' combined financial statements and/or state programs.

Each requirement is accompanied by suggested audit procedures for testing compliance. These are intended to be suggestions and are not the only or necessarily the best audit procedures, nor are they mandatory. Auditors should apply professional judgment in determining the audit procedures that are necessary to adequately measure an entity's compliance.

General Requirements

Some constitutional or statutory requirements are applicable to all or most state assistance programs and **should be considered in all financial and compliance audits.**

Specific Requirements

These requirements are applicable to specific state programs. Specific Requirements are organized in five categories

- Types of service allowed or unallowed
- Eligibility
- Matching, level of effort, or earmarking requirements
- Reporting requirements
- Special tests and provisions

Auditors are not relieved of responsibility for compliance testing of programs not included in Specific Requirements. Auditors should review the award, grant agreement, contract, regulations or enabling legislation to determine whether there are special conditions that need to be considered.

Questions regarding Specific Requirements for a program should be directed to the granting agency's contact person. See Page C-2 - Single Audit Contacts.

Single Audit Contacts

General Questions Kym Mauseth, Single Audit Coordinator Alaska Office of Management & Budget P.O. Box 110020 Juneau, AK 99811-0020 Phone: (907) 465-4666 Fax: (907) 465-2090 e-mail kym_mauseth@gov.state.ak.us web:www.gov.state.ak.us/omb/AuditHome.html	
Specific Program Questions Please contact the Granting Agency	
Contacts Listed Below	
Administration Dave Blaisdell 465-5653/Fax-465-2194 Division of Administrative Services P.O. Box 110208 Juneau, AK 99811-0208 dave_blaisdell@admin.state.ak.us	Law Kathryn Daughhetee 465-3673/Fax-465-5419 Division of Administrative Services P.O. Box 110300 Juneau, AK 99811-0300 kathryn_daughhetee@law.state.ak.us
Community & Economic Development Brenda Sorrell 465-4710/Fax-465-5863 Division of Administrative Services P.O. Box 110803 Juneau, AK 99811-0803 brenda_sorrell@dced.state.ak.us	Military & Veterans Affairs Bryon Gutschmidt 465-4736/Fax 465-4605 Administrative & Support Services P.O. Box 110900 Juneau, AK 99811-0900 bryon_gutschmidt@ak-prepared.com
Corrections Dwayne Peeples 465-3339/Fax-465-3253 Division of Administrative Services P.O. Box 112000 Juneau, AK 99811-2000 dwayne_peeples@correct.state.ak.us	Natural Resources Bill Andrews 465-3503/Fax-465-2102 Division of Support Services 400 Willoughby Ave. Juneau, AK 99801-1724 bill_andrews@dnr.state.ak.us
Education & Early Development Victoria Thomas 465-8683/Fax-463-5279 Division of Education Support Services 801 W 10 th St Suite 200 Juneau, AK 99801-1894 victoria_thomas@eed.state.ak.us	Public Safety Fred Schmitz 465-5501/Fax- 463-5039 Division of Administrative Services P.O. Box 111200 Juneau, AK 99811-1200 fred_schmitz@dps.state.ak.us
Environmental Conservation Laura Beason 465-5273/Fax-465-5097 Division of Administrative Services 410 Willoughby Ave. #105 Juneau, AK 99801 laura_beason@envircon.state.ak.us	Revenue Gary Zepp 465-2335/Fax-465-1685 Division of Administrative Services P.O. Box 110410 Juneau, AK 99811-0410 gary_zepp@revenue.state.ak.us
Fish & Game Tom Taylor 465-6177/Fax-465-6078 Division of Administrative Services P.O. Box 22526 Juneau, AK 99811-5526 tom_taylor@fishgame.state.ak.us	Alaska Housing Finance Corp. Christie Maiden 330-8270/Fax-338-2585 Planning & Program Development Department P.O. Box 101020 Anchorage, AK 99510-1020 cmaiden@ahfc.state.ak.us
Health & Social Services Bob Wright 465-3120/Fax-463-5149 Division of Administrative Services P.O. Box 110602 Juneau, AK 99811-0650 robert_wright@health.state.ak.us	Transportation & Public Facilities Bob Janes 465-2080/Fax-586-8365 Office of the Commissioner/Internal Review 3132 Channel Drive Juneau, AK 99801 bob_janes@dot.state.ak.us
Labor & Workforce Development JoEllen Hanrahan 465-5673/Fax-465-2784 Office of the Commissioner P.O. Box 21149 Juneau, AK 99802-1149 jo_e_hanrahan@labor.state.ak.us	General Services Jim Jobkar 279-0596/Fax 278-0352 Property Manager 2400 Viking Dr., Anchorage, AK 99501-1778 jim_jobkar@admin.state.ak.us

General Compliance Requirements

Public Purpose

Compliance Requirement

Section 6 of the Alaska Constitution requires all appropriations of public money or transfer of public property to accomplish a public purpose.

Suggested Audit Procedures

- Evaluate expenditures to determine that they accomplish a public purpose

Civil Rights

Compliance Requirement

State and federal civil rights prohibit discrimination against a person because of race, religion, color, national origin, age, physical handicap, sex, marital status, change in marital status, pregnancy, or parenthood.

Suggested Audit Procedures

- Obtain representation and/or attorney letters to determine whether any civil rights suits have been adjudicated or are pending
- During the fiscal year for each program, determine the
 - number of complaints filed with federal, state and/or local agencies responsible for ensuring nondiscrimination
 - status of unresolved complaints or investigations
 - actions taken on resolved complaints or completed investigations

Minimum Wages

Compliance Requirement

AS 23.10.065 Employers are required to meet minimum wage requirements.

Suggested Audit Procedure

- Review payroll records for compliance

Prevailing Wages

Compliance Requirement

AS 36.05.010 Certain projects are constrained by the provisions of AS 36 Public Contracts. To the extent that such provisions apply to the project that is the subject of an assistance agreement, the recipient shall pay the current prevailing rates of wage to employees.

Suggested Audit Procedures

- Identify the programs involving construction activities
- Review construction contracts and subcontracts and determine whether they contain provisions requiring the payment of prevailing wages
- For the selected construction contracts and subcontracts, determine whether the audited entity immediately notified the Alaska Department of Labor & Workforce Development under AS 36.05.035 of the

- amount and effective date of the contract
- identity of the contractor and all subcontractors
 - site or sites of construction
 - project description

Workers' Compensation

Compliance Requirement

As required by AS 23.30, recipients of state financial assistance and their contractors shall provide and maintain workers' compensation insurance.

Suggested Audit Procedures

- Examine project records to determine whether workers' compensation insurance was provided as required
- Determine whether any Department of Labor & Workforce Development actions regarding insufficiency of workers' compensation are proposed or pending
- Examine insurance policy to determine whether it provides Alaska benefits for employees hired in Alaska

Contractors' Bonds

Compliance Requirements

AS 36.25.010 specifies that except as provided in AS 44.33.300, before a contract exceeds \$100,000 for the construction, alteration, or repair of a public building; or public work of the state or political subdivision of the state is awarded, the contractor shall furnish performance and payment bonds.

Suggested Audit Procedures

- Review the recipient's system designed to ensure that contractors meet bonding requirements
- Review project records for evidence that contractors met bonding requirements

Political Activity

Compliance Requirement

AS 37.05.321 Grant funds may not be used for influencing legislative action. A grant or earnings from a grant made under AS 37.05.315 - .317 (grants to municipalities, grants to named recipients, and grants to unincorporated communities), may not be used for the purpose of influencing legislative actions; or for travel in connection with influencing legislative action unless pursuant to a specific request from a legislator or legislative committee.

Suggested Audit Procedures

- Test the expenditures and related records for indications of lobbying activities, publications, or other materials intended for influencing legislation, or similar type costs

- Test whether the above costs, if any exist, are charged directly or indirectly to state-assisted programs
- Test the personnel and payroll records, and identify persons whose responsibilities or activities include political activity

Responsibility for Third Parties

Compliance Requirement

Per 2 AAC 45.010, a recipient of state financial assistance that disburses financial assistance to a third party(s) in an amount equal to or greater than the audit threshold is required to ensure that the third party(s) complies with audit requirements. The recipient entity must also ensure that appropriate corrective action is taken within six months after disclosure of a third party's noncompliance with state statute or regulation, or financial assistance agreement.

Suggested Audit Procedures

- Determine whether the recipient entity has established a system for notifying third parties of their responsibilities, and that the system is being used
- Determine that the recipient entity has established a system to ensure third party compliance
- Determine whether the recipient entity has established a system to ensure that appropriate corrective action is taken within six months after a third party's noncompliance is disclosed

Retention and Inspection of Records

Compliance Requirements

A recipient of state financial assistance shall maintain and make available records of expenditure for those funds. As a minimum, the expenditure records shall be maintained until audits required under 2 AAC 45.010 are completed and noncompliance findings are resolved.

Suggested Audit Procedure

- Determine whether prior audit recommendations were resolved and if not; determine that pertinent records are still available for inspection

Audit Requirements

Compliance Requirement

Per 2 AAC 45.010 recipients of state financial assistance that meet the audit threshold are required to submit an audit to the Alaska Office of Management and Budget. See Appendix A– 1, Chapter 45 Grant Administration, and Page 4 State Audit and Major Program Thresholds.

Suggested Audit Procedure

- Refer to information in the Audit Guide Section of this publication